

**CITY OF ARLINGTON, TEXAS**  
**STATEMENT OF NET ASSETS**  
**AS OF SEPTEMBER 30, 2004**  
**(AMOUNTS EXPRESSED IN THOUSANDS)**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 125,086	\$ 35,064	\$ 160,150	\$ 3,979
Investments	4,385	-	4,385	7,317
Receivables (net of allowance for uncollectibles):				
Taxes	4,765	-	4,765	-
Sales taxes	9,084	-	9,084	-
Grants	-	-	-	72
Leases	-	-	-	39,055
Trade accounts	130	5,963	6,093	-
Franchise fees	6,227	-	6,227	-
Unbilled trade accounts	-	5,463	5,463	-
Special assessments	508	-	508	-
Accrued interest	745	-	745	3
Settlement agreement	-	-	-	11,652
Other	3,458	635	4,093	72
Internal balances	274	(274)	-	-
Due from component units	26	-	26	-
Due from other governments	1,677	-	1,677	-
Deferred charge - issuance costs	267	-	267	-
Inventory of supplies, at cost	200	7,116	7,316	6
Prepaid expenses	49	-	49	1,817
Restricted assets-				
Bond contingency-				
Investments	-	10,757	10,757	-
Accrued interest receivable	-	127	127	-
Capital construction-				
Investments	-	32,487	32,487	-
Assessments receivable	-	4	4	-
Meter deposits-				
Investments	-	3,635	3,635	-
Capital Assets-				
Land	71,831	10,950	82,781	-
Buildings and improvements	158,131	17,216	175,347	3,301
Water and sewer system	-	465,926	465,926	-
Machinery and equipment	42,543	12,969	55,512	566
Infrastructure	724,849	-	724,849	-
Construction in progress	102,931	82,310	185,241	-
Accumulated depreciation	(488,634)	(166,974)	(655,608)	(1,660)
<b>Total Assets</b>	<b>\$ 768,532</b>	<b>\$ 523,374</b>	<b>\$ 1,291,906</b>	<b>\$ 66,180</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**  
**STATEMENT OF NET ASSETS**  
**AS OF SEPTEMBER 30, 2004**  
**(CONTINUED)**  
**(AMOUNTS EXPRESSED IN THOUSANDS)**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 9,482	\$ 3,711	\$ 13,193	\$ 2,599
Retainage payable	596	-	596	-
Due to primary government	-	-	-	26
Due to other governments	31	-	31	-
Unearned revenue	7,147	-	7,147	39,057
Accrued interest	1,866	-	1,866	-
Payable from restricted assets-				
Accounts payable and accrued liabilities	-	1,728	1,728	-
Retainage payable	-	543	543	-
Accrued interest	-	1,424	1,424	-
Revenue bonds payable, current	-	3,382	3,382	-
Meter deposits	-	3,635	3,635	-
Non-current liabilities				
Due within one year:				
Estimated claims payable	5,397	-	5,397	-
Sales tax payable	149	-	149	74
General obligation debt	28,030	-	28,030	-
Accrued compensated absences	1,469	88	1,557	-
Capital lease obligation	473	-	473	-
Revenue bonds, net of discount	-	6,747	6,747	-
Due in more than one year:				
Arbitrage rebate	38	-	38	-
Estimated claims payable	5,652	-	5,652	-
Sales tax payable	1,081	-	1,081	534
Bonds payable	-	-	-	17,180
General obligation debt	267,270	-	267,270	-
Landfill closure accrued liabilities	-	3,970	3,970	-
Accrued compensated absences	20,289	1,759	22,048	-
Capital lease obligation	291	-	291	-
Revenue bonds, net of discount	-	77,180	77,180	-
<b>Total Liabilities</b>	<b>349,261</b>	<b>104,167</b>	<b>453,428</b>	<b>59,470</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	317,946	350,885	668,831	463
Restricted for debt service	2,993	9,460	12,453	6,552
Unrestricted	98,332	58,862	157,194	(305)
<b>Total Net Assets</b>	<b>\$ 419,271</b>	<b>\$ 419,207</b>	<b>\$ 838,478</b>	<b>\$ 6,710</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**  
**(AMOUNTS EXPRESSED IN THOUSANDS)**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 30,646	\$ 7,775	\$ -	\$ -
Public safety	93,852	9,145	1,285	524
Public works	55,350	6,059	993	4,327
Public health	1,321	1,093	-	-
Parks and recreation	20,633	7,161	-	879
Public welfare	5,410	14	5,480	-
Convention and event services	5,347	2,422	-	-
Interest and fiscal charges	14,548	-	-	-
<b>Total Governmental Activities</b>	<u>227,107</u>	<u>33,669</u>	<u>7,758</u>	<u>5,730</u>
<b>Business-Type Activities:</b>				
Water and sewer	67,232	88,474	-	6,357
Landfill	2,207	6,733	-	299
<b>Total Business-Type Activities</b>	<u>69,439</u>	<u>95,207</u>	<u>-</u>	<u>6,656</u>
<b>Total Primary Government</b>	<u>\$ 296,546</u>	<u>\$ 128,876</u>	<u>\$ 7,758</u>	<u>\$ 12,386</u>
<b>Component Units:</b>				
Arlington Sports Facilities				
Development Authority, Inc.	\$ 2,662	\$ 2,589	\$ -	\$ -
Arlington Housing Authority	26,009	-	26,315	-
Arlington Convention and Visitors Bureau	3,090	2,729	426	-
Arlington Housing Finance Authority	-	12	-	-
Arlington Industrial Development Corporation	-	-	-	-
<b>Total Component Units</b>	<u>\$ 31,761</u>	<u>\$ 5,330</u>	<u>\$ 26,741</u>	<u>\$ -</u>

General Revenues:  
Taxes  
Utility franchise fees  
Interest  
Net decrease in fair value of investments  
Other  
Transfers  
    Total general revenues and transfers  
Change in net assets  
Net assets - beginning  
Net assets - ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (22,871)	\$ -	\$ (22,871)	\$ -
(82,898)	-	(82,898)	-
(43,971)	-	(43,971)	-
(228)	-	(228)	-
(12,593)	-	(12,593)	-
84	-	84	-
(2,925)	-	(2,925)	-
(14,548)	-	(14,548)	-
<u>(179,950)</u>	<u>-</u>	<u>(179,950)</u>	<u>-</u>
-	27,599	27,599	-
-	4,825	4,825	-
-	32,424	32,424	-
<u>\$ (179,950)</u>	<u>\$ 32,424</u>	<u>\$ (147,526)</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (73)
-	-	-	306
-	-	-	65
-	-	-	12
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 310</u>
157,143	-	157,143	-
29,321	-	29,321	-
1,957	1,287	3,244	240
(355)	(223)	(578)	(34)
3,045	55	3,100	188
7,238	(7,238)	-	-
<u>198,349</u>	<u>(6,119)</u>	<u>192,230</u>	<u>394</u>
18,399	26,305	44,704	704
400,872	392,902	793,774	6,006
<u>\$ 419,271</u>	<u>\$ 419,207</u>	<u>\$ 838,478</u>	<u>\$ 6,710</u>

**CITY OF ARLINGTON, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF SEPTEMBER 30, 2004  
(AMOUNTS EXPRESSED IN THOUSANDS)**

	<b>General</b>	<b>Debt Service</b>	<b>Streets Capital Projects</b>	<b>Other Nonmajor Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 13,781	\$ 3,191	\$ 35,227	\$ 57,762	\$ 109,961
Receivables (net of allowance for uncollectibles)					
Taxes	3,603	-	-	1,162	4,765
Sales taxes	7,260	-	-	1,824	9,084
Franchise fees	6,227	-	-	-	6,227
Special assessments	-	-	508	-	508
Accrued interest	722	-	-	-	722
Other	1,762	-	3	1,693	3,458
Due from other funds	1,445	-	-	1,677	3,122
Due from component units	26	-	-	-	26
Due from other governments	-	-	-	64,121	64,121
Inventory of supplies, at cost	113	-	-	-	113
Prepaid expenditures	46	-	-	3	49
<b>Total Assets</b>	<b>\$ 34,985</b>	<b>\$ 3,191</b>	<b>\$ 35,738</b>	<b>\$ 128,243</b>	<b>\$ 202,157</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 5,557	\$ 198	\$ 953	\$ 201	\$ 6,909
Retainage payable	4	-	391	1,445	1,840
Due to other funds	-	-	-	31	31
Due to other governments	-	-	-	6,107	6,107
Deferred revenue-					
Taxes	3,166	-	-	-	3,166
Other	941	-	1,041	9,647	11,629
<b>Total Liabilities</b>	<b>9,668</b>	<b>198</b>	<b>2,385</b>	<b>17,431</b>	<b>29,682</b>
<b>Fund Balances:</b>					
Reserved for encumbrances	1,786	-	7,511	3	9,300
Reserved for debt service	-	2,993	-	-	2,993
Reserved for inventory	113	-	-	-	113
Reserved for prepaids	46	-	-	36,476	36,522
Reserved for capital projects	-	-	25,842	885	26,727
Reserved for street maintenance	-	-	-	482	482
Reserved for utility rate case	500	-	-	-	500
Reserved for court technology	-	-	-	292	292
Reserved for court security	-	-	-	-	-
Unreserved-					
General fund					
Designated for telecommunications	329	-	-	-	329
Designated for working capital	13,585	-	-	-	13,585
Designated for subsequent years' expenditures	5,018	-	-	-	5,018
Designated for arbitrage	38	-	-	-	38
Designated for compensated absences	1,411	-	-	-	1,411
Designated for other post employment benefits	1,718	-	-	-	1,718
Undesignated	773	-	-	-	773
Special revenue funds					
Designated for working capital	-	-	-	3,998	3,998
Designated for capital maintenance	-	-	-	54,474	54,474
Undesignated	-	-	-	161	161
<b>Total Fund Balances</b>	<b>25,317</b>	<b>2,993</b>	<b>33,353</b>	<b>96,771</b>	<b>158,434</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 34,985</b>	<b>\$ 3,191</b>	<b>\$ 35,738</b>	<b>\$ 114,202</b>	<b>\$ 188,116</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS  
RECONCILIATION OF THE STATEMENT OF NET ASSETS  
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET  
AS OF SEPTEMBER 30, 2004  
(AMOUNTS EXPRESSED IN THOUSANDS)**

<b>Total fund balance per balance sheet</b>	<b>\$ 158,434</b>
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	601,180
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	4,108
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Internal service funds are used by management to charge the cost of fleet services, general services, APFA, technology services, workers' compensation and group health to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets (including capital assets of \$10,471).	18,247
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Long-term liabilities, including bonds payable, arbitrage and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds.	(320,401)
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<b>Net assets of governmental activities</b>	<b><u>\$ 461,568</u></b>
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The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**  
**(AMOUNTS EXPRESSED IN THOUSANDS)**

	General	Debt Service	Streets Capital Projects	Other Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 102,657	\$ 39,772	\$ -	\$ 14,529	\$ 156,958
Licenses and permits	4,160	-	-	-	4,160
Utility franchise fees	29,371	-	-	-	29,371
Fines and forfeitures	7,318	-	-	-	7,318
Leases, rents and concessions	3,026	-	-	-	3,026
Service charges	4,696	-	-	14,728	19,424
Interest revenue	440	310	429	694	1,873
Net increase (decrease) in fair value of investments	(60)	(7)	(113)	(143)	(323)
Contributions	-	-	2,368	285	2,653
Intergovernmental revenues	-	-	-	10,426	10,426
Other	500	124	10	1,962	2,596
<b>Total Revenues</b>	<u>152,108</u>	<u>40,199</u>	<u>2,694</u>	<u>42,481</u>	<u>237,482</u>
<b>EXPENDITURES</b>					
Current-					
General government	29,702	-	-	446	30,148
Public safety	92,177	-	-	3,322	95,499
Public works	17,393	-	-	10,142	27,535
Public health	1,150	-	-	102	1,252
Parks and recreation	12,501	-	-	9,364	21,865
Public welfare	-	-	-	5,546	5,546
Convention and event services	-	-	-	5,312	5,312
Capital Outlay	-	-	14,242	9,927	24,169
Debt service-					
Principal retirement	-	28,270	-	-	28,270
Interest and fiscal charges	-	14,637	-	-	14,637
<b>Total Expenditures</b>	<u>152,923</u>	<u>42,907</u>	<u>14,242</u>	<u>44,161</u>	<u>254,233</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(815)</u>	<u>(2,708)</u>	<u>(11,548)</u>	<u>(1,680)</u>	<u>(16,751)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of general obligation bonds	-	-	13,230	10,925	24,155
Issuance of capital leases	64	-	-	237	301
Proceeds from sale of capital assets	-	-	152	481	633
Transfers in	9,557	3,675	-	11,092	24,324
Transfers out	(4,295)	-	(1,098)	(9,283)	(14,676)
<b>Total Other Financing Sources and Uses</b>	<u>5,326</u>	<u>3,675</u>	<u>12,284</u>	<u>13,452</u>	<u>34,737</u>
<b>Net Change in Fund Balances</b>	<u>4,511</u>	<u>967</u>	<u>736</u>	<u>11,772</u>	<u>17,986</u>
<b>Fund Balances, October 1</b>	<u>20,806</u>	<u>2,026</u>	<u>32,617</u>	<u>42,702</u>	<u>98,151</u>
<b>Fund balances, September 30</b>	<u>\$ 25,317</u>	<u>\$ 2,993</u>	<u>\$ 33,353</u>	<u>\$ 54,474</u>	<u>\$ 116,137</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2004  
(AMOUNTS EXPRESSED IN THOUSANDS)**

**Net change in fund balance - total governmental funds** **\$ 17,986**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period. (5,398)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (5)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 4,316

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 164

Internal service funds are used by management to charge the costs of fleet management and management information systems, property liability loss, health claims and offices services to individual funds. The net expenses of certain activities of internal service funds is reported within governmental activities. 1,336

**Change in net assets of governmental activities** \$ 18,399

The notes to the financial statements are an integral part of this statement.



**CITY OF ARLINGTON, TEXAS  
BUDGETARY COMPARISON STATEMENT  
GENERAL FUND (BUDGETARY BASIS)  
FOR THE YEAR ENDED SEPTEMBER 30, 2004  
(AMOUNTS EXPRESSED IN THOUSANDS)**

	Budgeted Amounts		Actual Amounts			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis	
<b>REVENUES</b>						
Taxes	\$ 100,294	\$ 100,294	\$ 102,657	\$ -	\$ 102,657	\$ 2,363
Licenses and permits	4,194	4,194	4,160	-	4,160	(34)
Utility franchise fees	30,288	30,288	29,371	-	29,371	(917)
Fines and forfeitures	8,904	8,904	7,318	-	7,318	(1,586)
Leases, rents and concessions	3,446	3,446	3,026	500	3,526	80
Service charges	9,825	9,825	4,696	4,851	9,547	(278)
Interest revenue	341	341	440	-	440	99
Other revenue	-	-	500	(500)	-	-
Net decrease in the fair value of investments	-	-	(60)	60	-	-
<b>Total Revenues</b>	<u>157,292</u>	<u>157,292</u>	<u>152,108</u>	<u>4,911</u>	<u>157,019</u>	<u>(273)</u>
<b>EXPENDITURES</b>						
Current-						
General government	29,338	29,338	29,702	(1,419)	28,283	1,055
Public safety	94,423	94,423	92,177	1,599	93,776	647
Public works	22,250	22,250	17,393	3,456	20,849	1,401
Public health	1,140	1,140	1,150	6	1,156	(16)
Parks and recreation	13,517	13,517	12,501	438	12,939	578
<b>Total Expenditures</b>	<u>160,668</u>	<u>160,668</u>	<u>152,923</u>	<u>4,080</u>	<u>157,003</u>	<u>3,665</u>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<u>(3,376)</u>	<u>(3,376)</u>	<u>(815)</u>	<u>831</u>	<u>16</u>	<u>3,392</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Issuance of capital leases	-	-	64	(64)	-	-
Transfers in	7,492	7,492	9,557	(2,006)	7,551	59
Transfers out	(4,116)	(4,116)	(4,295)	362	(3,933)	183
<b>Total Other Financing Sources (Uses)</b>	<u>3,376</u>	<u>3,376</u>	<u>5,326</u>	<u>(1,644)</u>	<u>3,618</u>	<u>242</u>
<b>Net Change In Fund Balances</b>	<u>-</u>	<u>-</u>	<u>4,511</u>	<u>(813)</u>	<u>3,634</u>	<u>3,634</u>
<b>Fund Balances, October 1</b>	<u>20,745</u>	<u>20,745</u>	<u>20,806</u>	<u>-</u>	<u>20,806</u>	<u>61</u>
<b>Fund Balances, September 30</b>	<u>\$ 20,745</u>	<u>\$ 20,745</u>	<u>\$ 25,317</u>	<u>\$ (813)</u>	<u>\$ 24,440</u>	<u>\$ 3,695</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2004**  
**(AMOUNTS EXPRESSED IN THOUSANDS)**

	<b>Business-type Activities Enterprise Funds</b>			<b>Governmental Activities- Internal Service Funds</b>
	<b>Water and Sewer</b>	<b>Sanitary Landfill</b>	<b>Total</b>	
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 11,777	\$ 23,287	\$ 35,064	\$ 15,125
Investments	-	-	-	4,385
Receivables (net of allowances for uncollectables):				
Trade accounts	5,963	-	5,963	130
Accrued interest	-	-	-	23
Unbilled trade accounts	5,463	-	5,463	-
Other	134	501	635	-
Inventory of supplies, at cost	482	6,634	7,116	87
<b>Total Current Assets</b>	<b>23,819</b>	<b>30,422</b>	<b>54,241</b>	<b>19,750</b>
<b>Non-Current Assets:</b>				
Restricted Assets:				
Bond contingency-				
Investments	10,757	-	10,757	-
Accrued interest	127	-	127	-
Capital construction-				
Investments	32,487	-	32,487	-
Assessments receivable	4	-	4	-
Meter deposit investments	3,635	-	3,635	-
Capital Assets:				
Land	4,828	6,122	10,950	-
Buildings and improvements	2,833	14,383	17,216	467
Water and sewer system	465,926	-	465,926	-
Machinery and equipment	9,739	3,230	12,969	30,334
Construction-in-progress	82,310	-	82,310	-
Accumulated depreciation	(151,563)	(15,411)	(166,974)	(20,330)
Total Capital Assets Net of Accumulated Depreciation	414,073	8,324	422,397	10,471
<b>Total Noncurrent Assets</b>	<b>461,083</b>	<b>8,324</b>	<b>469,407</b>	<b>10,471</b>
<b>Total Assets</b>	<b>\$ 484,902</b>	<b>\$ 38,746</b>	<b>\$ 523,648</b>	<b>\$ 30,221</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2004**  
**(CONTINUED)**  
**(AMOUNTS EXPRESSED IN THOUSANDS)**

	<b>Business-type Activities Enterprise Funds</b>			<b>Governmental Activities- Internal Service Funds</b>
	<b>Water and Sewer</b>	<b>Sanitary Landfill</b>	<b>Total</b>	
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 3,627	\$ 84	\$ 3,711	\$ 911
Accrued compensated absences- Current	85	3	88	45
Revenue bonds, net of discount, payable from unrestricted assets	6,747	-	6,747	-
Capital lease obligation	-	-	-	22
<b>Current Liabilities Payable From Restricted Assets:</b>				
Accounts payable and accrued liabilities	1,728	-	1,728	-
Retainage	543	-	543	-
Accrued interest	1,424	-	1,424	-
Estimated claims payable	-	-	-	5,397
Revenue bonds payable	3,382	-	3,382	-
Meter deposits	3,635	-	3,635	-
<b>Total Current Liabilities</b>	<b>21,171</b>	<b>87</b>	<b>21,258</b>	<b>6,375</b>
<b>Noncurrent Liabilities:</b>				
Estimated claims payable	-	-	-	5,652
Compensated absences	1,593	166	1,759	216
Landfill closure accrued liabilities	-	3,970	3,970	-
Revenue bonds, net of discount payable from unrestricted assets	77,180	-	77,180	-
Capital lease obligation	-	-	-	5
<b>Total Noncurrent Liabilities</b>	<b>78,773</b>	<b>4,136</b>	<b>82,909</b>	<b>5,873</b>
<b>Total Liabilities</b>	<b>99,944</b>	<b>4,223</b>	<b>104,167</b>	<b>12,248</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	342,561	8,324	350,885	10,331
Restricted for debt service	9,460	-	9,460	-
Unrestricted	32,937	26,199	59,136	7,642
<b>Total Net Assets</b>	<b>\$ 384,958</b>	<b>\$ 34,523</b>	<b>419,481</b>	<b>\$ 17,973</b>
Reconciliation to government-wide statements of net assets:				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(274)	
Net assets of business-type activities			<u>\$ 419,207</u>	

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**  
**(AMOUNTS EXPRESSED IN THOUSANDS)**

	<b>Business-type Activities Enterprise Funds</b>			<b>Governmental Activities- Internal Service Funds</b>
	<b>Water and Sewer</b>	<b>Sanitary Landfill</b>	<b>Total</b>	
<b>Operating Revenues:</b>				
Water sales	\$ 44,857	\$ -	\$ 44,857	\$ -
Sewer service	37,615	-	37,615	-
Landfill user charges	-	6,692	6,692	-
Service charges	-	-	-	37,982
Sundry	6,002	41	6,043	212
<b>Total Operating Revenues</b>	<b>88,474</b>	<b>6,733</b>	<b>95,207</b>	<b>38,194</b>
<b>Operating Expenses:</b>				
Purchase of water	12,697	-	12,697	-
Purchase of sewage treatment	16,070	-	16,070	-
Salaries and wages	11,633	1,457	13,090	1,499
Employees' retirement	1,384	142	1,526	207
Supplies	1,924	162	2,086	2,917
Maintenance and repairs	1,964	1,171	3,135	1,056
Utilities	1,907	77	1,984	629
Claims	-	-	-	21,408
Legal & Professional	-	-	-	868
Franchise fees	4,129	-	4,129	-
Payment in-lieu-of taxes	2,515	54	2,569	-
Depreciation	9,314	889	10,203	2,802
Closure/post-closure expense	-	(3,661)	(3,661)	-
Miscellaneous services	3,333	1,939	5,272	2,828
<b>Total Operating Expenses</b>	<b>66,870</b>	<b>2,230</b>	<b>69,100</b>	<b>34,214</b>
<b>Operating Income</b>	<b>21,604</b>	<b>4,503</b>	<b>26,107</b>	<b>3,980</b>
<b>Nonoperating Revenues (Expenses):</b>				
Interest revenue	939	348	1,287	179
Net decrease in the fair value of investments	(144)	(79)	(223)	(32)
Gain on sale of assets	-	55	55	128
Interest expense and fiscal charges	(843)	-	(843)	(5)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(48)</b>	<b>324</b>	<b>276</b>	<b>270</b>
Income before transfers and contributions	21,556	4,827	26,383	4,250
Contributions in aid of construction	6,357	-	6,357	-
Contributions of inventory	-	299	299	-
Transfers in	-	-	-	425
Transfers out	(2,924)	(4,314)	(7,238)	(2,835)
<b>Change in Net Assets</b>	<b>24,989</b>	<b>812</b>	<b>25,801</b>	<b>1,840</b>
<b>Total Net Assets, October 1</b>	<b>359,969</b>	<b>33,711</b>	<b>393,680</b>	<b>16,133</b>
<b>Total Net Assets, September 30</b>	<b>\$ 384,958</b>	<b>\$ 34,523</b>	<b>\$ 419,481</b>	<b>\$ 17,973</b>
Net change in net assets - total proprietary funds			\$ 25,801	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			504	
Change in net assets of business-type activities			<u>\$ 26,305</u>	

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**  
**(AMOUNTS EXPRESSED IN THOUSANDS)**

	Business-type Activities- Enterprise Funds			Governmental Activities- Internal Service Funds
	Water and Sewer	Sanitary Landfill	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 88,791	\$ 6,768	\$ 95,559	\$ 38,847
Cash payments to suppliers	(40,234)	(2,704)	(42,938)	(31,278)
Cash payments to employees	(12,944)	(1,555)	(14,499)	(1,785)
<b>Net Cash Provided By Operating Activities</b>	<b>35,613</b>	<b>2,509</b>	<b>38,122</b>	<b>5,784</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:</b>				
Transfers in	-	-	-	425
Transfers out	(2,924)	(4,314)	(7,238)	(2,835)
<b>Net Cash Used For Noncapital Financing Activities</b>	<b>(2,924)</b>	<b>(4,314)</b>	<b>(7,238)</b>	<b>(2,410)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition and construction of capital assets	(22,431)	(1,616)	(24,047)	(2,003)
Principal payments on capital lease	-	-	-	(56)
Interest payments on capital lease	-	-	-	(5)
Proceeds from sales of capital assets	-	55	-	156
Proceeds from issuance of long-term debt	15,000	-	15,000	-
Repayment of long-term debt	(10,715)	-	(10,715)	-
Interest payment long-term debt	(3,724)	-	(3,724)	-
<b>Net Cash Used For Capital And Related Financing Activities</b>	<b>(21,870)</b>	<b>(1,561)</b>	<b>(23,486)</b>	<b>(1,908)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Proceeds from interest earnings	1,112	348	1,460	179
Net increase (decrease) in the fair value of investments	(144)	(79)	(223)	(32)
Purchase of investments	(129,234)	-	(129,234)	(9,025)
Maturities/sales of investments	119,238	-	119,238	9,684
<b>Net Cash Provided By Investing Activities</b>	<b>(9,028)</b>	<b>269</b>	<b>(8,759)</b>	<b>806</b>
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	<b>1,791</b>	<b>(3,097)</b>	<b>(1,306)</b>	<b>2,272</b>
<b>Cash And Cash Equivalents, October 1</b>	<b>9,986</b>	<b>26,384</b>	<b>36,370</b>	<b>12,853</b>
<b>Cash And Cash Equivalents, September 30</b>	<b>\$ 11,777</b>	<b>\$ 23,287</b>	<b>\$ 35,064</b>	<b>\$ 15,125</b>
<b>Reconciliation of operating income to net cash provided by (used for ) operating activities:</b>				
Operating income	\$ 21,604	\$ 4,503	\$ 26,107	\$ 3,980
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	9,314	888	10,202	2,802
Interest earnings capitalized	(173)	-	(173)	-
Interest expense capitalized	3,150	-	3,150	-
Amortization of bond premium	(57)	-	(57)	-
Provision for bad debts	(11)	-	(11)	-
(Increase) decrease in-				
Receivables	318	35	353	654
Inventory of supplies	(124)	716	592	56
Prepaid Expenses	-	-	-	1
Increase (decrease) in-				
Accounts payable and accrued liabilities	1,607	(17)	1,590	104
Estimated claims payable	-	-	-	(1,734)
Retainage payable	(67)	-	(67)	-
Meter deposits	38	-	38	-
Accrued compensated absences	14	45	59	(79)
Closure/post-closure liability	-	(3,661)	(3,661)	-
Total adjustments	14,009	(1,994)	12,015	1,804
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 35,613</b>	<b>\$ 2,509</b>	<b>\$ 38,122</b>	<b>\$ 5,784</b>
<b>Noncash investing, capital, and financing activities:</b>				
Contributions of capital assets from developers	6,357	-	6,357	-
Contributions of inventory from developers	-	299	299	-

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2004**  
**(AMOUNTS EXPRESSED IN THOUSANDS)**

	<b>Pension Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 7,694
Investments		
Money market fund	48	-
U. S. Government bonds	148	-
Corporate bonds	247	-
Fixed income mutual bond funds	7,406	35
Common stock mutual bond funds	64,983	194
Participant borrowing	5,714	-
Self directed brokerage accounts	7,141	-
Total Investments	<u>85,687</u>	<u>229</u>
<b>Total Assets</b>	<u>85,687</u>	<u>7,923</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	-	7,694
IRC 401 deferred compensation plans	-	229
<b>Total Liabilities</b>	<u>-</u>	<u>7,923</u>
<b>NET ASSETS</b>		
Held in trust for pension benefits	<u>\$ 85,687</u>	

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**  
**(AMOUNTS EXPRESSED IN THOUSANDS)**

	<b>Pension Trust Funds</b>
<b>ADDITIONS</b>	
Employer contributions	\$ 2,254
Employee contributions	4,610
Net appreciation in fair value of investments	6,025
<b>Total Additions</b>	<u>12,889</u>
<b>DEDUCTIONS</b>	
Benefits	7,007
Plan administration	41
<b>Total Deductions</b>	<u>7,048</u>
<b>Increase in Net Assets</b>	5,841
<b>Net Assets, October 1</b>	79,846
<b>Net Assets, September 30</b>	<u><u>\$ 85,687</u></u>

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2004**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The City of Arlington, Texas (the "City") was incorporated January 17, 1920, under the provisions of the Home Rule Amendment to the State Constitution. The City operates under a Council Manager form of government and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and sewer utilities, sanitary landfill, and general administrative services.

The accompanying financial statements of the City include all funds and component units. The financial statements of the City have been prepared to conform to generally accepted accounting principles (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies and practices used by the City are described below.

**A. Financial Statement Presentation**

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both non-current assets and non-current liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus for governmental funds. Accordingly, the accounting and financial reporting of the City's General Fund, Capital Projects Funds and Debt Service Funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34. The accrual basis of accounting and the economic resources measurement focus is utilized by proprietary fund types and the pension trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

GAAP also requires supplementary information presented as Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented that compares the originally adopted and final General Fund budget with actual results.

**B. Reporting Entity**

The City is governed by an elected mayor and nine-member council. As required by GAAP, these financial statements present the City (the primary government) and its component units, entities for which the government is considered to be financially accountable.

Component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial



statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government.

The financial statements of the following component units have been "discretely presented" in the accompanying report because (i) their governing boards are not substantially the same as the governing body of the City, or (ii) the component unit provides services entirely or almost entirely to the citizenry and not the City.

Arlington Sports Facilities Development Authority, Inc.

The Arlington Sports Facilities Development Authority, Inc.'s (the "ASFDA") board of directors is appointed by the City Council. The ASFDA's management is designated by the City, and City employees are responsible for the ASFDA's daily operations. The City is financially accountable for the ASFDA's activities. Separate ASFDA component unit financial statements can be obtained from the City's Finance Department.

Arlington Housing Authority

The Arlington Housing Authority's (the "AHA") board of commissioners is appointed by the Mayor. The AHA's management is designated by the City. The employees who are responsible for daily operations of the AHA are City employees. The City has financial accountability over the AHA's activities. The audited financial statements of the AHA are prepared in accordance with accounting principles generally accepted in the United States (GAAP). Separate AHA component unit financial statements can be obtained from the AHA at 501 W. Sanford Street, Suite 20, Arlington, Texas 76010.

Arlington Convention and Visitors Bureau, Inc.

The Arlington Convention and Visitors Bureau, Inc.'s (the "ACVB") board of directors is appointed by the City Council. The primary source of revenue for the ACVB is a professional services support contract with the City; therefore, the City has financial accountability over the ACVB's activities. Separate ACVB component unit financial statements can be obtained from the ACVB at 1905 E. Randol Mill Road, Arlington, Texas 76011.

Arlington Housing Finance Corporation

The Arlington Housing Finance Corporation's (the "AHFC") board of directors is appointed by the City Council. The AHFC's management is designated by the City, and City employees are responsible for the daily activities of the AHFC; accordingly, the City has financial accountability over AHFC's activities. Separate AHFC component unit financial statements can be obtained from the City's Finance Department.

Arlington Industrial Development Corporation

The Arlington Industrial Development Corporation's (the "AIDC") board of directors is appointed by the City Council. The AIDC's management is designated by the City, and City employees are responsible for the daily activities of the AIDC; accordingly, the City has financial accountability over AIDC's activities. Separate AIDC component unit financial statements can be obtained from the City's Finance Department.

The financial statements of the following component units have been "blended" with those of the City because (i) their governing bodies are substantially the same as the governing body of the City or (ii) the component unit provides services entirely to the City.

Arlington Property Finance Authority, Inc.

The Arlington Property Finance Authority's (the "APFA") board of directors is appointed by the City Council, and the City management maintains significant continuing management oversight with respect to APFA's policies. Additionally, the APFA provides services entirely to the City and its employees.

#### Thrift Savings Plan

The Thrift Savings Plan's (the "Thrift") governing board and trustee are appointed by the City Council. The City Council also directs the operations of the Thrift and has a significant influence over its investment policies. Additionally, the Thrift provides services exclusively to City employees.

#### Disability Income Plan

The Disability Income Plan's (the "DIP") governing board is appointed by the City Council. Additionally, the City Council appoints the DIP trustee and significantly influences its activities. The DIP exclusively covers City employees.

#### Part-Time Deferred Income Trust

The Part-Time Deferred Income Trust's (the "PTDIT") governing board is appointed by the City Council. Additionally, the City Council appoints the PTDIT trustee and significantly influences its activities. The PTDIT exclusively covers City employees.

### C. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public Works, etc.) or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. All franchise fees are based on gross receipts and are included in general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales and franchise taxes, intergovernmental revenues, interest income, etc.).

Separate fund-based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental funds are the general fund, debt service fund and street improvements fund. GAAP sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the Comprehensive Annual Financial Report.

Internal Service Funds, which traditionally provide services primarily to other funds of the government, are presented in the summary form as part of the proprietary fund financial statements. Because the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government-wide level. To the extent possible, the costs of these services are reflected in the appropriate functional activity (Public Safety, Public Works, etc.).

The City's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (other local governments, individuals, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

#### D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues availability period is generally considered to be one year. Expenditures are recorded when a liability is incurred, as under accrual accounting, except debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

Ad valorem, franchise and sales tax revenues in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met. Additionally, funds received in advance for which all eligibility requirements have not been met are considered deferred revenue.

Business-type activities and all proprietary funds, and the pension trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewer, and sanitary landfill funds are charges to customers for sales and services. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The following major funds are used by the City:

1. Governmental Funds:

The focus of Governmental fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the City:

- a. General Fund accounts for several of the City's primary services (Public Safety, Public Works, Public Health, Public Welfare, Parks and Recreation, etc.) and is the primary operating unit of the City.
- b. Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- c. Street capital projects fund accounts for the financing and acquisition of right-of-way and construction of streets and related facilities. Funds are provided primarily through bond sales, interest earnings, and impact fees.
- d. Other Governmental Funds is a summarization of all of the nonmajor governmental funds.

2. Enterprise Funds:

The focus of Enterprise Fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows, which is similar to businesses. The following is a description of the major Enterprise Funds of the City:

- a. Water and Sewer Fund accounts for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.
- b. Sanitary Landfill Fund accounts for the operations of the City's landfill. Customers are billed monthly at a rate sufficient to cover the cost of providing such service.

3. Other Fund Types:

The City additionally reports for the following Fund types:

- a. Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, generally on a cost reimbursement basis.
- b. Agency Funds are used to account for assets held by the City in an agency capacity for individuals, local law enforcement agencies or developers.
- c. Pension Trust Fund is used to account for the accumulation of resources to be used for the retirement benefit payments to employees of the City.

E. Cash, Cash Equivalents and Investments

To facilitate cash management, the operating cash of certain funds and component units is pooled into a cash management pool for the purpose of increasing income through combined investment activities. This cash and investment pool is available for use by all funds and component units except the ASFDA, the Trust Funds, and the AHA, all of which maintain separate investments. Each fund's portion of this pool is allocated through its cash and cash equivalent account on the balance sheet. In addition, certain investments are separately held by several of the City's funds. Interest is allocated on a monthly basis to

all funds in the investment pool based on their average balance at the end of each month. Interest earned by separate investments is credited to the respective funds.

For purposes of the statement of cash flows, the City considers all unrestricted investments included in its cash management pool to be cash equivalents as these balances are used essentially as demand deposit accounts by the individual funds. Investments included in the cash management pool which are restricted for use are reported as investments. Additionally, certificates of deposit and temporary investments held separately from the City's cash management pool and which are purchased with original maturities of three months or less are reported as cash equivalents.

Texas statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, fully collateralized certificates of deposit, repurchase agreements, commercial paper, and direct obligations of cities within the state of Texas. The City is also authorized to invest in direct obligations of the state of Texas or its agencies, obligations of states, agencies, counties, and other political subdivisions, money market mutual funds, prime bankers' acceptances, and reverse repurchase agreement.

In accordance with GASB Statement No. 31, investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a transaction between willing parties.

#### F. Inventories and Prepaid Items

Inventories are valued at cost. Cost is determined using the first-in, first-out method. Inventory consists of expendable supplies held for consumption. Inventories are capitalized under the consumption method, whereby expenditures are capitalized as inventory until used. Reported inventories in governmental funds are equally offset by a fund balance reserve, which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

#### G. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Public domain (infrastructure) fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been recorded at estimated historical cost. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Net revenue bond interest cost incurred during construction periods is capitalized when material.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Improvements other than buildings	20 - 40
Equipment	4 - 10
Drainage improvements	35 - 50
Meters	10
Streets	20 - 25
Storm/sanitary sewer	50
System infrastructure	20 - 50

#### H. Capitalization of Interest

The City capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use. During 2004, approximately \$2,977,000 of interest costs, net of \$173,000 of interest earned, were capitalized as

fixed assets in the Water and Sewer Fund as part of the costs of constructing various projects. Total interest costs and interest earned in fiscal 2004 for the Water and Sewer Fund amounted to approximately \$843,000 and \$939,000, respectively.

**I. Arbitrage Liability**

The City accrues a liability for an amount of rebatable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. Such investment activities can result in interest revenue exceeding interest cost. The arbitrage liability is payable to the federal government every five years; however, the City calculates and records its arbitrage liability annually. The arbitrage liability is recorded as a liability in the government-wide and proprietary fund types, as applicable, on the accrual basis and as a reduction of interest income on the invested debt proceeds.

**J. Compensated Absences**

The City's employees earn vacation leave for each month of work performed. The accrual rate increases with years of service up to a maximum of 20 days per year for 15 years of service and over. On specified anniversary dates, additional days are credited, up to certain amounts, according to length of service. Accrued vacation is paid to the employees upon termination of employment for employees who have completed at least six months of continuous service.

The City's employees accumulate 1.25 days of sick leave per month with a maximum accrual of 150 days (180 for fire fighters). For employees with more than five years of service, one-fourth of the total amount of accumulated sick pay up to a maximum of 120 days is paid at termination. The full amount accumulated up to 120 days maximum is paid if termination is through retirement or death.

Accumulated vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**K. Long-term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**L. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains the "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$320,401,000 difference are as follows (amounts in thousands):

Bonds payable	\$293,705
Less: Deferred charge for issuance costs (to be amortized as interest expense)	(267)
Premium general obligation debt	2,436
Deferred loss refunding	(841)
Accrued interest payable	1,866
Arbitrage rebate	38
Sales tax payable	1,230
Compensated absences	21,497
Capital leases	<u>737</u>
Net adjustment to reduce fund balance - total governmental funds	
To arrive at net assets - governmental activities	<u>\$320,401</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances include a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense." The details of the \$5,398,000 difference are as follows (amounts in thousands):

Capital outlay	\$28,633
Depreciation expense	<u>(34,031)</u>
Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	<u>(\$ 5,398)</u>

Another element of that reconciliation states "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$4,316,000 difference are as follows (amounts in thousands):

Debt issued or incurred:	
Issuance of general obligation bonds	(\$24,155)
Capital lease	(301)
Amortization of deferred loss on bond refunding	(77)
Principal repayments:	
General obligation debt	28,270
Capital lease	408
Amortization of bond premium	<u>171</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 4,316</u>

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$258,000 difference are as follows (amounts in thousands):

Compensated absences	\$ (500)
Arbitrage	282
Accrued interest expense	347
Amortization of issuance cost	(20)
Sales tax	<u>149</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$258</u>

### **III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

#### **Budgetary Data**

The City Council adopts an annual legal budget, which covers the General Fund, the Debt Service Fund, the Enterprise Funds, and certain Special Revenue Funds (Park Performance, Convention and Event Services and Street Maintenance). All unencumbered appropriations lapse at fiscal year-end, except certain of those of the Special Revenue Funds. The budgets for the General Fund, the Debt Service Fund, and certain Special Revenue Funds are prepared on the modified accrual basis except for encumbrances which are treated as budgeted expenditures. The budgets for the Enterprise Funds are prepared on the modified accrual basis and include encumbrances, debt principal retirements and capital outlays as expenses. Additionally, the Enterprise Funds do not include depreciation as a budgetary expense. The statements comparing budget and actual amounts for these governmental funds include adjustments to those budgetary bases for the differences noted above and for certain other items which are reported in the City's budget differently than they are reported for accounting principles generally accepted in the United States. Budgetary level of control is exercised at the departmental level. The City Manager is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter total expenditures of the General Fund, Debt Service Fund, and certain Special Revenue funds must be approved by the City Council. During fiscal year 2004, the City Council did not approve any budgetary expenditure amendments for the General Fund.

The Budgetary Comparison Statement presents a comparison of budgetary data to actual results of operations for the General Fund, for which an annual operating budget is legally adopted. This fund utilizes the same basis of accounting for both budgetary purposes and actual results, with the following exceptions:

The portion of ad valorem tax revenues in the General Fund from "rolled back" tax payments (taxes, up to five years back, on properties previously taxed at special use exemption values and currently changed to full values) are excluded from the budgetary basis tax revenues and from the general governmental expenditures.

Certain interdepartmental revenues and expenses are included in budgetary basis revenues and expenditures, but are eliminated from actual revenues and expenditures.

General Fund encumbrances are added to the actual expenditures for budgetary comparison. Budgetary data for the Special Revenue Funds and Capital Projects Funds have not been presented. Receipts of revenues are not estimable for all Special Revenue Funds and are not budgeted. Expenditures are limited to total revenues over the life of the funds. Capital Projects Funds are budgeted over the life of the respective project and are reviewed and approved by the City Council in an annual Capital Improvements Program plan.

### **IV. DETAILED NOTES ON ALL FUNDS**

#### **1. DEPOSITS AND INVESTMENTS**

Deposits - State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized as required by



State statutes at September 30, 2004. At year-end, the carrying amount of the City's demand deposits (excluding Component Units) was an overdraft of \$(5,136,000) (bank balance, \$1,272,729). The City's bank balance (excluding Component Units) was covered by collateral with a fair value of \$5,338,116. The collateral is held in the City's name by the Federal Home Loan Bank of Dallas, an agent of the City's financial institution. (Category 2 – Collateralized with securities held by the pledging financial institution's agent in the City's name.)

Investments - State statutes and City Bond Ordinances authorize the City's investments. The City is authorized to invest in U. S. Government obligations and its agencies, obligations of Texas and its agencies, fully collateralized repurchase agreements, prime domestic commercial paper, prime domestic bankers acceptances, government pools and money market funds consisting of any of these securities listed. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City's name. Category 2 includes investments that are uninsured and unregistered, or for which securities are held by the counterpart's trust department or agent in the entity's name. Category 3 includes investments that are uninsured and unregistered, or for which the securities are held by the counterpart, or by its trust department or agent but not in the entity's name. The short-term investment pools are not evidenced by securities that exist in physical or book entry form and accordingly, are not categorized for credit risk. The City has the ability and intent to hold investments until maturity and not realize losses due to market decline.

The City's investments carried at fair value as of September 30, 2004 are:

	<u>Category of Risk</u>	<u>Fair Value</u>
<u>Investments</u>		
Treasury Notes	(1)	\$123,191
Federal Farm Credit Bank	(1)	2,467
Federal Home Loan Bank, Notes and Discount Notes	(1)	20,582
Federal National Mortgage Assoc., Notes and Discount Notes	(1)	32,887
Federal Home Loan Mortgage Assoc., Notes and Discount Notes	(1)	23,764
State and Local Government Securities	(1)	<u>3,731</u>
		206,622
<u>Mutual Funds, Investment Pools and Other</u>		
TEXPOOL	N/A	14,032
Fidelity	N/A	3,590
Deferred Compensation Investments	N/A	229
Trust Fund Investments	N/A	<u>85,687</u>
		<u>103,538</u>
Total Investments		<u>\$310,160</u>
<u>Component Units</u>		
	<u>Category of Risk</u>	<u>Fair Value</u>
<u>Investments</u>		
Treasury STRIPS	(1)	\$ 5,905
<u>Deposits</u>		
Certificates of Deposit	(1)	3,112
Demand Deposits	(1)	1,543
<u>Mutual Funds, Investment Pools and Other</u>		
U.S. Treasury Portfolio II	N/A	<u>736</u>
Total Investments and Deposits		<u>\$11,296</u>

Investments in the Retirement Security Plan are held by a bank trust department.

Investments of the City, other than for 2a7-like pools, are valued-based upon quotes obtained from Interactive Data Corporation (IDC). Investments in 2a7-like pools, are valued-based upon the value of pool shares. No investments are reported at amortized cost. The City currently invests in one 2a7-like pool, the Texas Local Government Investment Pool (Texpool), which was created under the Interlocal Cooperation Act, Texas Government Code Ann. Ch. 791 and the Texas Government Code Ann. Ch. 2256. The Texas Treasury Safekeeping Trust Company (the Trust) is trustee of Texpool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is the sole officer, director and shareholder. The advisory board of Texpool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act, Texas Government Code Ann. Ch. 2256. The City's investment in Texpool and short-term investments (treasury money market funds) are not categorized because they are not evidenced by securities that exist in physical or book entry form.

A reconciliation of cash and investments as shown on the Statement of Net Assets for the City follows: (amounts in thousands):

	Primary Government	Component Units	Reporting Entity	Fiduciary Funds
Cash on Hand	\$ 73	\$ -	\$ 73	\$ -
Carrying Amount of Deposits	(12,830)	4,655	(8,175)	7,694
Carrying Amount of Investments	<u>224,171</u>	<u>6,641</u>	<u>230,812</u>	<u>85,916</u>
	<u>\$211,414</u>	<u>\$11,296</u>	<u>\$222,710</u>	<u>\$93,610</u>
Cash and Cash Equivalents	\$160,150	\$ 3,979	\$164,129	\$ 7,694
Investments	4,385	7,317	48,207	85,916
Investments-Restricted	<u>46,879</u>	<u>-</u>	<u>14,009</u>	<u>-</u>
	<u>\$211,414</u>	<u>\$11,296</u>	<u>\$226,345</u>	<u>\$93,610</u>

## 2. PROPERTY TAXES

Property Taxes are levied on October 1 on the assessed value listed as of the prior January 1 and are due and payable at that time. All unpaid taxes attach as a lien on property as of January 1 and become enforceable February 1. Penalty and interest is charged at 7 percent on delinquent taxes beginning February 1, and increase each month to 18 percent on July 1.

Appraised values are established by the Tarrant Appraisal District at 100 percent of estimated market value and certified by the Appraisal Review Board. The assessed value for the tax roll of January 1, 2003, upon which the original FY04 levy was based, was \$15,018,725,000.

City property tax revenues are recorded as receivables and deferred revenues at the time the tax levy is billed. Current year revenues recognized are those collected within the current period, or soon enough thereafter to pay current liabilities, generally within sixty days after year-end. An allowance is provided for delinquent personal property taxes not expected to be collected in the future.

For the fiscal year ended September 30, 2004, the City had a tax rate of \$0.6480 (\$0.4023 for general government and \$0.2457 for debt service) per \$100 assessed valuation with a tax margin of \$1.8520 per \$100 valuation based upon a maximum ad valorem tax of \$2.50 per \$100 valuation permitted by Article XI, Section 5, of the State of Texas Constitution. Additional revenues up to approximately \$278,146,787 could be raised per year before the limit is reached, based on the current year's appraised net taxable value of approximately \$15,018,725,000.

In Texas, county-wide central appraisal districts are required to assess all property within the appraisal district on the basis of 100 percent of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, legal action. Under this system, the City sets tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8 percent above the tax rate of the previous year.

### 3. RECEIVABLES

Receivables at September 30, 2004 for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following:

(Amounts expressed in thousands)

	<u>General</u>	<u>Debt Service</u>	<u>Streets Capital Projects</u>	<u>Water &amp; Sewer</u>	<u>Sanitary Landfill</u>	<u>Nonmajor &amp; Other Funds</u>	<u>Total</u>
Receivables:							
Taxes	\$ 8,453	\$ -	\$ -	\$ -	\$ -	\$2,986	\$11,439
Trade Accounts	6,227	-	-	7,766	-	-	13,993
Unbilled Trade Accounts	-	-	-	5,463	-	-	5,463
Special Assessments	-	-	508	-	-	-	508
Sales Taxes	7,260	-	-	-	-	-	7,260
Accrued Interest	722	-	-	-	-	-	722
Other	<u>1,762</u>	<u>-</u>	<u>3</u>	<u>134</u>	<u>501</u>	<u>1,719</u>	<u>4,119</u>
Gross Receivables	24,424	-	511	13,363	501	4,705	43,504
Less: Allowance for Uncollectibles	<u>(4,850)</u>	<u>-</u>	<u>-</u>	<u>(1,803)</u>	<u>-</u>	<u>(26)</u>	<u>(6,679)</u>
Net total receivables	<u>\$19,574</u>	<u>\$ -</u>	<u>\$511</u>	<u>\$11,560</u>	<u>\$501</u>	<u>\$4,679</u>	<u>\$36,825</u>

### 4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2004 was as follows:

	<u>Balance at Beginning Of Year</u>	<u>Transfers And Additions</u>	<u>Transfers And Retirements</u>	<u>Balance at End Of Year</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 69,739	\$ 2,092	\$ -	\$ 71,831
Construction in progress	<u>114,887</u>	<u>26,851</u>	<u>(38,807)</u>	<u>102,931</u>
Total capital assets, not being depreciated	<u>184,626</u>	<u>28,943</u>	<u>(38,807)</u>	<u>174,762</u>
Capital assets, being depreciated:				
Buildings	88,338	14,641	(432)	102,547
Improvements other than buildings	55,584	-	-	55,584
Equipment	40,867	2,133	(457)	42,543
Infrastructure	<u>702,702</u>	<u>22,147</u>	<u>-</u>	<u>724,849</u>
Total capital assets, being depreciated	<u>887,491</u>	<u>38,921</u>	<u>(889)</u>	<u>925,523</u>
Less accumulated depreciation for:				
Buildings	23,801	3,731	(173)	27,359
Improvements other than buildings	18,936	-	-	18,936
Equipment	24,513	4,603	(2,000)	27,116
Infrastructure	<u>386,990</u>	<u>28,233</u>	<u>-</u>	<u>415,223</u>
Total accumulated depreciation	<u>454,240</u>	<u>36,567</u>	<u>(2,173)</u>	<u>488,634</u>
Total capital assets, being depreciated, net	<u>433,251</u>	<u>2,354</u>	<u>1,284</u>	<u>436,889</u>
Governmental activities capital assets, net	<u>\$617,877</u>	<u>\$31,297</u>	<u>(\$37,523)</u>	<u>\$611,651</u>

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
<b>Total Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 9,474	\$ 1,899	\$ (423)	\$ 10,950
Construction in progress	<u>72,902</u>	<u>21,985</u>	<u>(12,577)</u>	<u>82,310</u>
Total capital assets, not being depreciated	<u>82,376</u>	<u>23,884</u>	<u>(13,000)</u>	<u>93,260</u>
Capital assets, being depreciated:				
Buildings and improvements	16,435	781	-	17,216
Water and sewer system	447,213	18,713	-	465,926
Machinery and equipment	<u>13,658</u>	<u>26</u>	<u>(715)</u>	<u>12,969</u>
Total capital assets, being depreciated	<u>477,306</u>	<u>19,520</u>	<u>(715)</u>	<u>496,111</u>
Less accumulated depreciation for:				
Buildings and improvements	12,997	778	-	13,775
Water and sewer system	132,464	9,025	-	141,489
Machinery and equipment	<u>12,027</u>	<u>398</u>	<u>(715)</u>	<u>11,710</u>
Total accumulated depreciation	<u>157,488</u>	<u>10,201</u>	<u>(715)</u>	<u>166,974</u>
Total capital assets, being depreciated, net	<u>319,818</u>	<u>9,319</u>	<u>-</u>	<u>329,137</u>
Business-type activities capital assets, net	<u>\$402,194</u>	<u>\$33,203</u>	<u>(\$13,000)</u>	<u>\$422,397</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 2,396
Public Safety	533
Parks and recreation	2,329
Public works	28,482
Public health	25
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>2,802</u>
Total depreciation expense – governmental activities	<u>\$36,567</u>
Business-type activities:	
Water and sewer	\$ 9,313
Sanitary landfill	<u>888</u>
Total depreciation expense – business-type activities	<u>\$10,201</u>

The City uses the straight-line depreciation method for property, plant and equipment based on the following estimated useful lives by major class of depreciable fixed assets:

<u>Class</u>	
Building and Improvements	20-50 years
Machinery and equipment	4-10 years
Water and sewer systems	50 years
Infrastructure	20-50 years

Discretely presented component units:

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
<b>Arlington Sports Facilities Development Authority, Inc.:</b>				
Capital assets, being depreciated:				
Buildings and improvements	<u>\$2,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,739</u>
Total capital assets, being depreciated	<u>2,739</u>	<u>-</u>	<u>-</u>	<u>2,739</u>
Less accumulated depreciation for:				
Buildings and improvements	<u>1,041</u>	<u>109</u>	<u>-</u>	<u>1,150</u>
Total accumulated depreciation	<u>1,041</u>	<u>109</u>	<u>-</u>	<u>1,150</u>
Total capital assets, being depreciated, net	<u>1,698</u>	<u>(109)</u>	<u>-</u>	<u>1,589</u>
Arlington Sports Facility Development Authority, Inc. activities capital assets, net	<u>\$1,698</u>	<u>(\$109)</u>	<u>\$ -</u>	<u>\$1,589</u>
	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
<b>Arlington Housing Authority, Inc.:</b>				
Capital assets, not being depreciated:				
Machinery and equipment	<u>\$ 761</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$761</u>
Total capital assets, not being depreciated	<u>761</u>	<u>-</u>	<u>-</u>	<u>761</u>
Less accumulated depreciation for:				
Machinery and equipment	<u>269</u>	<u>29</u>	<u>-</u>	<u>298</u>
Total accumulated depreciation	<u>269</u>	<u>29</u>	<u>-</u>	<u>298</u>
Total capital assets, being depreciated, net	<u>492</u>	<u>(29)</u>	<u>-</u>	<u>463</u>
Arlington Housing Authority, Inc. activities capital assets, net	<u>\$ 492</u>	<u>(\$29)</u>	<u>\$ -</u>	<u>\$463</u>
	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
<b>Arlington Convention and Visitors Bureau, Inc.:</b>				
Capital assets, not being depreciated:				
Machinery and equipment	<u>\$378</u>	<u>\$ -</u>	<u>(\$11)</u>	<u>\$367</u>
Total capital assets, not being depreciated	<u>378</u>	<u>-</u>	<u>(11)</u>	<u>367</u>
Less accumulated depreciation for:				
Machinery and equipment	<u>262</u>	<u>40</u>	<u>(90)</u>	<u>212</u>
Total accumulated depreciation	<u>262</u>	<u>40</u>	<u>(90)</u>	<u>212</u>
Total capital assets, being depreciated, net	<u>116</u>	<u>(40)</u>	<u>79</u>	<u>155</u>
Arlington Convention and Visitors Bureau, Inc. activities capital assets, net	<u>\$116</u>	<u>(\$40)</u>	<u>\$79</u>	<u>\$155</u>

## 5. PENSION AND EMPLOYEE BENEFIT PLANS

### Texas Municipal Retirement System

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of over 794 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing TMRS, P.O. Box 149153, Austin, Texas, 78714 or by calling 512-476-7577.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100 percent, 150 percent, or 200 percent) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Plan provisions for the City were as follows (as of 4/1/04):

Deposit Rate:	7%
Matching Ratio: (City to Employee)	2 to 1
A member is vested after:	5 years

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year open amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period, which began in January 1997. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

For 2004, the City's annual pension cost of \$13,955,035 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included an 8 percent investment rate of return (net of administrative expenses), (b) no projected salary increases, (c) no cost of living adjustment, and (d) no inflation rate adjustment. The actuarial value of assets is adjusted cost for bonds (original cost adjusted for amortization of premium or accrual of discount) and original cost for

short-term securities and stocks, which is the same as book value. The City's unfunded actuarial accrued liability is being amortized over a constant 25-year open amortization period as a level percentage of payroll.

The following table discloses three-year historical trend information relating to the TMRS plan.

<b><u>Fiscal Year Ending</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage of APC Contribution</u></b>	<b><u>Net Pension Obligation</u></b>
9/30/02	\$14,098,512	100.00%	-
9/30/03	\$14,117,102	100.00%	-
9/30/04	\$13,955,035	100.00%	-

#### Thrift Savings Plan

All full-time City employees may participate in the Thrift Savings Plan (the "Thrift"), a single-employer defined contribution plan administered by the Retirement Committee at the City. The plan provisions and contribution requirements are adopted and amended by the City Council, within the options available in the federal statutes governing Internal Revenue Code, section 401(k). This voluntary IRS Code 401(k) plan allows all full-time City employees to contribute between 1 percent to 10 percent of their salary with the City matching the first 6 percent of employee contributions at 50 cents to the dollar. Partial vesting of employer contributions begins after three years of participation with full vesting taking place after six years of participation. At September 30, 2004, the Thrift plan was fully funded and the fair market value of plan assets, including accrued interest, was \$84,304,000.

The City's total payroll during fiscal 2004 was \$117,209,000. The current year contribution was calculated based on a covered payroll of \$82,020,000, resulting in a required and actual employer contribution of \$1,870,000 and actual employee contributions of \$4,512,000. The employer contribution represents 2.3 percent of the covered payroll. The employee contribution represents approximately 5.5 percent of the covered payroll.

There were no material changes to the Thrift plan during fiscal 2004. There were no related-party transactions.

#### Part-Time Deferred Income Trust

The City provides retirement benefits for all part-time, seasonal, and temporary employees through the Part-time Deferred Income Trust Plan (the "PDIT"), a single-employer defined benefit plan administered by the City of Arlington's Human Resources Department. The PDIT was adopted by the City Council in accordance with the safe harbor rules of the Internal Revenue Service regulations. The PDIT does not issue separate stand-alone financial statements.

The contribution rate for employees is 3 percent, and the City's actuarially determined matching percent is currently 3.3 percent. The City's required contribution rate was determined as part of the July 1, 2004, actuarial valuation (the most recent actuarial valuation) using the aggregate cost method, which does not identify or separately amortize unfunded actuarial liabilities. For 2004, 2003, 2002, 2001, 2000, and 1999 the City contributed 100 percent of the annual pension cost totaling approximately \$75,000, \$0, \$0, \$0, \$75,000, and \$69,000 respectively.

Benefits depend on length of service to the City and the employee's total contributions. At normal retirement age (65), the benefit consists of monthly payments equal to a percentage of the employee's average pay multiplied by years of service. The percentage of the employee's pay ranges from 1.50 percent to 2.00 percent, depending on the number of months of service.

#### IRC 457 Deferred Compensation Plans

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 which is administered by Fidelity Investments. In addition, the City offers its executive employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457

which is administered by the International City Management Association Retirement Corporation (the "ICMA"). Due to the fact that the City does not administer these plans, these plans are not included in the City's financial statements.

#### Disability Income Plan

Effective October 1, 1992, the City began providing active employees with disability insurance through a policy obtained from a commercial carrier. Previously, all City employees had participated in a Disability Income Plan (the "DIP"), a single-employer disability plan, which had been funded by actuarially determined contributions. This plan had been accounted for in the DIP fund. Benefits to employees who were disabled while participating under the previous plan will continue to be paid from the remaining assets of the DIP fund. As of July 1, 2004, the date of the latest actuarial valuation, the DIP had benefit liabilities to disabled participants of \$2,960,000. The market value of DIP assets at July 1, 2004, was \$286,000. The resulting unfunded DIP liability of \$2,674,000 will be funded by employer contributions over 30 years. The DIP does not issue separate stand-alone financial statements.

City contributions for the above plans for the year ended September 30, 2004, are as follows (amounts in thousands):

TMRS	\$13,955
THRIFT	1,870
PTDIT	75
DIP	<u>309</u>
	<u>\$16,209</u>

#### Statement of Net Assets and Statement of Changes in Net Assets

The Part-Time Deferred Income Trust, Thrift Savings and Disability Income Plans do not issue separate GAAP financial reports. Their financial statements are presented below:"

	<u>Statement of Net Assets</u>			
	<u>Part-Time Deferred Income Trust</u>	<u>Thrift Savings Plan</u>	<u>Disability Income Plan</u>	<u>Total</u>
ASSETS				
Investments	<u>\$1,095</u>	<u>\$84,304</u>	<u>\$288</u>	<u>\$85,687</u>
Total Assets	<u>\$1,095</u>	<u>\$84,304</u>	<u>\$288</u>	<u>\$85,687</u>
NET ASSETS, Held in Trust For Pension Benefits	<u>\$1,095</u>	<u>\$84,304</u>	<u>\$288</u>	<u>\$85,687</u>



Statement of Changes in Net Assets				
	Part-Time Deferred Income Trust	Thrift Savings Plan	Disability Income Plan	Total
ADDITIONS				
Employer contributions	\$ 75	\$ 1,870	\$309	\$ 2,254
Employee contributions	98	4,512	-	4,610
Net appreciation in fair value of investments	59	5,951	15	6,025
Total Additions	<u>\$ 232</u>	<u>\$12,333</u>	<u>\$324</u>	<u>\$12,889</u>
DEDUCTIONS				
Benefits	51	6,641	315	7,007
Plan administration	32	3	6	41
Total Deductions	<u>83</u>	<u>6,644</u>	<u>321</u>	<u>7,048</u>
Increase in Net Assets	149	5,689	3	5,841
NET ASSETS, October 1	<u>946</u>	<u>78,615</u>	<u>285</u>	<u>79,846</u>
NET ASSETS, September 30	<u>\$1,095</u>	<u>\$84,304</u>	<u>\$288</u>	<u>\$85,687</u>

#### Other Post Employment Benefits

The City provides postretirement health care benefits to eligible employees who retire from the City with at least 10 years of service with the City of Arlington. Currently, 484 retirees meet those eligibility requirements. Retirees may select an HMO or PPO plan. The City plan coordinates with Medicare and other primary plans for retirees and/or their dependents. Expenditures for postretirement health care benefits are recognized as retirees report claims. During the year, expenditures of \$2,778,099 were recognized for postretirement health care.

## **6. LONG-TERM DEBT**

#### General Long-Term Debt

In July, 2004, the City issued \$24,155,000 of Permanent Improvement Bonds, Series 2004 for the purpose of making various capital improvements and paying the cost of issue related to the bond sale. The bonds will mature on August 15<sup>th</sup> of each year over a period from 2005 to 2024. Interest is payable February 15 and August 15 of each year commencing February 15, 2005. Total interest requirements for these bonds, at rates ranging from 4.0 percent to 4.625 percent aggregate of \$11,093,802.

The City received a determination in 2002 by the State of Texas Comptroller's office that the City had received \$2,228,186 in sales tax receipts from the Comptroller's office in error over the past several years. The Comptroller's office agreed to allow the City to repay the excess sales tax revenue interest free over a period of ten years through reduced sales tax allocations from the state. The state began withholding \$18,568 monthly from the City's sales tax allocations beginning in March 2003. As of September 30, 2004, this liability is reported at \$1,230,340 in the governmental activities and \$607,915 in the component units of the statement of net assets. Beginning in 2003, as sales tax allocations were reduced monthly, the City recorded an expense at the fund level to reduce the liability and record sales tax revenue for the amount of the monthly sales tax allocation withheld by the Comptroller's office. The City also recorded a fund liability to the extent that sales tax revenues are recognized and accrued at year-end.

General long-term debt balances and transactions for the year ended September 30, 2004, are as follows (amounts in thousands):

	Balance, October 1, 2003	Additions	Retirements and Other	Balance, September 30, 2004	Due Within One Year
General obligation debt <sup>(1)</sup>	\$297,820	\$24,155	(\$28,270)	\$293,705	\$28,030
Premium on bonds	2,607	-	(171)	2,436	-
Deferred loss on refunding	(918)	-	77	(841)	-
Accrued compensated absences	21,338	1,718	(1,298)	21,758	1,469
Capital lease obligation	928	301	(465)	764	473
Arbitrage rebate	320	-	(282)	38	-
Claims payable	12,783	6,879	(8,613)	11,049	5,397
Sales tax payable	1,379	-	(149)	1,230	149
Total	<u>\$336,257</u>	<u>\$33,053</u>	<u>(\$39,171)</u>	<u>\$330,139</u>	<u>\$35,518</u>

<sup>(1)</sup> The general obligation debt of \$293,705 consists of serial and term bonds and certificates of obligation payable from general property taxes. The bonds mature annually in varying amounts through fiscal year 2024, and interest is payable semiannually at rates ranging from 2.35 percent to 7.375 percent.

The principal and interest requirements of the above general obligation debt at September 30, 2004 are as follows (amounts in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 28,030	\$ 14,136	\$ 42,166
2006	25,455	12,980	38,435
2007	23,220	11,837	35,057
2008	22,205	10,753	32,958
2009	20,320	9,650	29,970
2010-2014	91,010	34,004	125,014
2015-2019	63,700	13,688	77,388
2020-2024	<u>19,765</u>	<u>2,180</u>	<u>21,945</u>
	<u>\$293,705</u>	<u>\$109,228</u>	<u>\$402,933</u>

General obligation debt authorized and unissued as of September 30, 2004, amounted to \$102,645,000.

#### Debt of the Enterprise Funds

The City issued \$15,000,000 of Water and Wastewater System Revenue Bonds, Series 2004 during 2004 at an effective interest rate of 3.78 percent and will mature on June 1<sup>st</sup> of each year over a period from 2005 to 2023. Interest is payable June 1 and December 1 of each year commencing on December 1, 2004. Total interest requirements for these bonds, at rates ranging from 2.375 percent to 4.30 percent, aggregate \$5,804,349. The bond proceeds were used to improve and extend the water and wastewater system.

The revenue bonds of the Enterprise Funds are payable from operations of the Water and Sewer Fund. The bonds mature annually in varying amounts through fiscal year 2023, and interest is payable semiannually at rates ranging from 2.0 percent to 6.0 percent. Debt balances and transactions for the year ended September 30, 2004, are as follows (amounts in thousands):

	Balance, October 1, 2003	Additions	Retirements and Other	Balance, September 30, 2004	Due Within One Year
Waterworks and Sewer System-					
Revenue bonds	\$83,650	\$15,000	(\$10,715)	\$87,935	\$10,129
Deferred loss on refunding	(668)	-	42	(626)	-
Compensated Absences	1,788	125	(66)	1,847	88
Landfill Closure Liability	<u>7,631</u>	<u>-</u>	<u>(3,661)</u>	<u>3,970</u>	<u>-</u>
Total	<u>\$92,401</u>	<u>\$15,125</u>	<u>(\$14,400)</u>	<u>\$93,126</u>	<u>\$10,217</u>

The revenue bonds are collateralized by the revenue of the water and sewer system and assets of various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is first to be used to pay operating and maintenance expenses of the system and secondly to establish and maintain the special funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions, which restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts calculated in accordance with provisions of the existing bond ordinances and certain financial ratios are met.

The principal and interest requirements at September 30, 2004, for the enterprise fund debt for the next five years and thereafter, are as follows (amounts in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Waterworks and Sewer System Revenue Bonds</u>
2005	\$10,145	\$ 3,916	\$ 14,061
2006	9,385	3,382	12,767
2007	8,615	2,979	11,594
2008	6,135	2,616	8,751
2009	6,095	2,369	8,464
2010-2014	25,290	8,262	33,552
2015-2019	16,475	3,463	19,938
2020-2023	5,795	506	6,301
	<u>\$87,935</u>	<u>\$27,493</u>	<u>\$115,428</u>

#### Long-Term Debt of the Discretely Presented Component Units

As part of the Incremental Funding, as defined in the Agreement, on February 2, 1993, the ASFDA authorized the issuance of \$20,124,000 Junior Lien Revenue Bonds, First Series (the "Bonds"). The Bonds are noninterest-bearing limited special obligations of the ASFDA, secured by a subordinated junior lien on the one-dollar ticket surcharge of up to \$2,000,000 annually. The Bonds are due on December 31, 2008, and are callable at any time at the option of the ASFDA. As of September 30, 2004, \$17,179,900 in Bonds were outstanding. Proceeds from the Bonds were used toward the development of the Texas Rangers sports facility.

#### **7. PRIOR YEAR BOND REFUNDINGS**

In prior years, the City legally defeased certain general obligation, revenue, and other bonds by placing cash and/or proceeds of refunding bond issues in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's report. As of September 30, 2004, previously defeased debt still outstanding amounted to \$43,545,000.

#### **8. INTERFUND TRANSACTIONS**

A summary of interfund receivables and payables at September 30, 2004 is as follows (amounts in thousands):

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$1,445	\$ -
Nonmajor Funds	-	1,445
	<u>\$1,445</u>	<u>\$1,445</u>

The General Fund receivable represents cash provided to nonmajor funds and will be reimbursed in 2005.

Transfers between funds during the year were as follows (amounts in thousands):

	<u>Transfers Out</u>	<u>Transfers In</u>
Major Governmental Funds:		
General Fund	\$ 4,295	\$ 9,557
Debt Service Fund	-	3,675
Street Capital Projects Fund	<u>1,098</u>	<u>-</u>
Total Major Governmental Funds	5,393	13,232
Major Proprietary Funds:		
Water and Sewer Fund	2,924	-
Sanitary Landfill Fund	<u>4,314</u>	<u>-</u>
Total Major Proprietary Funds	7,238	-
Nonmajor Funds:	<u>12,118</u>	<u>11,517</u>
Total All Funds	<u>\$24,749</u>	<u>\$24,749</u>

The combined Water and Sewer, Convention and Event Services, Arlington Property Finance Authority, and Sanitary Landfill Funds transferred \$4,392,000 to the General Fund to cover their budgeted indirect costs.

The Sanitary Landfill Fund made a one time transfer of \$3,100,000 to General Fund.

The General Fund transferred \$4,116,000 to Street Maintenance Fund, Special Transportation (Handitran), and other special revenue funds to cover budgeted operating expenses.

The Debt Service Fund received budgeted transfers of \$3,675,000 from the Water and Sewer, Convention and Event Services, Sanitary Landfill and Park Performance Funds to cover debt service repayments.

## 9. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

The City accounts for its landfill closure and post-closure care costs in accordance with GASB No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs."

State and federal laws and regulations require the City to place a final cover on its municipal landfill site when it stops accepting waste and to perform certain maintenance functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of the closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. In 2004 the City received a permit for vertical expansion which increased the capacity and the life of the landfill. The \$3,970,000 reported as a landfill closure and post-closure accrued liability at September 30, 2004, represents the cumulative amount reported to date based on the use of approximately 48 percent of the estimated capacity of the active cells of the landfill. The City will recognize the remaining estimated cost of closure and post-closure care of \$3,664,000 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2004. The City expects to close the landfill in 2034. Actual costs may change due to inflation, changes in technology, or changes in regulations.

Under state regulations, the City will be required to demonstrate financial assurance that it will fulfill its responsibility for closure and post-closure care of the landfill. The City can demonstrate financial assurance through several mechanisms, including establishing a trust fund, obtaining a surety bond or letter of credit, obtaining insurance or meeting certain financial tests. The City believes that it will meet the financial tests outlined by the state and will not be obligated to demonstrate financial assurance through one of the other mechanisms.

## 10. COMMITMENTS AND CONTINGENCIES

### Trinity River Authority

The City entered into a 50 year contract dated October 10, 1973, with the Trinity River Authority (TRA) whereby the TRA agrees to provide supplemental sewage treatment for consideration. Payments by the City are based on metered usage, at rates designed to charge the City a pro rata share of the TRA's annual operating and maintenance expenses, and principal and interest requirements on bonds issued by the TRA.

### Grant Audits

The City receives federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would be insignificant.

### Construction Commitments

The City has various active construction projects as of September 30, 2004. The projects include street construction, park construction, and the construction of water and sewer facilities. At year-end the City's commitments with contractors are as follows (amounts in thousands):

<u>Project</u>	<u>Spend-to-Date</u>	<u>Remaining Commitment</u>
Street Construction	\$ 37,565	\$8,174
Park Construction	21,208	2,577
Police Construction	12,870	29
Traffic Construction	7,814	194
Water and Sewer Construction	82,310	10,411
	<u>\$161,767</u>	<u>\$21,385</u>

The street, police and traffic construction projects are funded primarily by permanent improvement bonds proceeds. The park construction projects are funded by permanent improvement bond proceeds, certificate of obligation proceeds, and park fee revenues. Water and sewer construction projects are funded by revenue bond proceeds and cash from operating revenues of the water and sewer system.

### Litigation

The City is no longer involved in the class action lawsuit challenging the validity of the street maintenance fee. In February 2004, the Texas Supreme Court denied review of the Court of Appeals decision. The trial court had found the street maintenance fee was an illegal tax. The Court of Appeals dismissed the case against the City, because the plaintiff did not have standing to challenge the fee. The City subsequently repealed the street maintenance fee after voters approved a street maintenance sales tax.

The City is currently involved in an employment lawsuit in which the plaintiff alleges that his termination violated the Family Medical Leave Act. The City is vigorously contesting this case, which was tried by jury in April 2004. Judgment in the amount of \$1.1 million was rendered against the City. The case has been appealed. The range of exposure to the City in the event the jury verdict is affirmed on appeal is \$1.1 to \$1.5 million. The probability of an unfavorable outcome cannot be determined at this time and an accrual has been recorded.

A suit has been filed contesting the ad valorem tax exempt status afforded the Rangers and Cowboys sports facilities. Plaintiff sought an injunction and the return of tax dollars to the school district. On December 9, 2004 the court granted the plea to the jurisdiction dismissing all claims as to all defendants because of Plaintiff's lack of standing. Plaintiff is still within the time to file an appeal, but an outcome adverse to the City is remote. Accordingly, no accrual has been made.

Various claims and lawsuits are pending against the City. In the opinion of City management, the potential losses, in excess of APFA limitations (see Note 11) or insurance coverage, if any, on all claims will not have a materially adverse effect on the City's financial position, as a whole.

## **11. RISK MANAGEMENT**

The City's risk management activities are administered through various internal service funds.

### Arlington Property Finance Authority (APFA)

The APFA was created for the purpose of acting on the City's behalf in financing various governmental programs as prescribed by ordinance or resolution of the City Council. In October 1986, the City Council adopted an ordinance to establish the City's Self-insurance and Risk Management Program (the "Program"). The purpose of the Program is to provide the City a defined and funded self-insurance program for bodily injury, property damage, personal injury, advertising injury, and regulatory injury.

In 1986, APFA issued \$9,000,000 of notes payable and the City transferred \$1,000,000 from the General Fund in order to initially fund the Program. In August 2001, the City Council adopted an ordinance to extend the program for another four years, when it will expire on September 30, 2005. On January 12, 1999, the City issued \$7,000,000 of Certificates of Obligation, Series 1999 which will adequately capitalize the Fund through fiscal year 2006, based on a recent actuarial study of the program. The \$7,000,000 will be repaid from ad valorem taxes. Under the Program Ordinance, the annual surplus on deposit in the APFA Fund may be withdrawn upon order of the City's APFA Claims Board and used for any lawful purpose. The payments out of the APFA Fund for all purposes cannot exceed \$1,000,000 per occurrence and \$3,000,000 in aggregate in one annual period. Should claims exceed this amount, the excess claims are to be funded by other available City resources.

The APFA claims liabilities are actuarially determined annually to include the effects of specific incremental claims, adjustment expenses, and if probable and material, salvage and subrogation. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 1.5 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately \$2,753,000 at September 30, 2004.

### Workers' Compensation

The City's workers' compensation plan provides City employees with workers' compensation insurance through the Workers' Compensation Fund (the "WCF"). Under this program, the WCF provides coverage for up to a maximum of \$300,000 per claim. The City purchases commercial insurance for claims in excess of coverage provided by the WCF. No settlements have utilized this commercial insurance coverage for the past three years. All City departments participate in the workers' compensation program. Payments to the WCF from such departments are based on actuarial estimates of the amounts needed to pay prior and current year claims and related administrative expenses. The WCF claims liabilities are actuarially determined annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 1.3 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately \$5,806,000 at September 30, 2004.

### Group Health

Group medical benefits are paid through the Group Health Fund which has an annually negotiated stop loss provision. Revenues are recognized from payroll deductions and from City contributions for employee and dependent coverage.

The year-end liability for incurred but not reported claims is reported in the accompanying financial statements at the present value of approximately \$2,490,000 at September 30, 2004.

Changes in the balances of claims liabilities during fiscal 2004 and 2003 were as follows (amounts in thousands):

<u>Fiscal 2004</u>	<u>October 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>September 30</u>
APFA	\$ 1,652	\$ 1,501	\$ (400)	\$ 2,753
Workers' Compensation	4,837	5,008	(4,039)	5,806
Group Health	6,294	12,064	(15,868)	2,490
	<u>\$12,783</u>	<u>\$19,674</u>	<u>(\$21,408)</u>	<u>\$11,049</u>
<u>Fiscal 2003</u>				
APFA	\$ 1,568	\$ 351	\$ (267)	\$ 1,652
Workers' Compensation	3,889	5,267	(4,319)	4,837
Group Health	3,457	20,749	(17,912)	6,294
	<u>\$ 8,914</u>	<u>\$26,367</u>	<u>(\$22,498)</u>	<u>\$12,783</u>

## 12. LEASES

### A. As Lessee

As lessee, the City is committed under various leases for data processing and office equipment. These leases are considered for accounting purposes to be capital leases. The liability for future capital lease payments totals \$764 and is reported as capital lease obligations current liabilities (\$473) and capital lease obligations non-current liabilities (\$291) in the General Services Fund and the Court Technology Fund.

Future minimum lease payments for capital leases including interest and principal are as follows (amounts in thousands):

<u>Year ending September 30, 2004</u>	<u>Rental Payments</u>
2005	\$487
2006	135
2007	64
2008	64
2009	38
Total minimum future lease payments	788
Less: Amount representing interest	(24)
Present value of net minimum lease payments	<u>\$764</u>

The City's investment in equipment under capital lease arrangements as of September 30, 2004 is \$1,226,000.

The City is also committed under various leases for data processing, office equipment and machinery. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the fiscal year ended September 30, 2004, amounted to \$503.

Future minimum lease payments for these leases are as follows (amounts in thousands):

<u>Year ending September 30</u>	<u>Rental Payments</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2005	\$579	\$419	\$160
2006	333	305	28
2007	80	64	16
2008	2	2	0
	<u>\$994</u>	<u>\$790</u>	<u>\$204</u>

## B. As Lessor

Effective October 1, 1983, the City entered into a contract to lease a tract of land for the purpose of constructing and developing a hotel, commercial and office complex and business park. The term of the lease is for an initial period of fifty years with renewal options for two additional terms of fifteen years each. The rental payments are based upon a percentage (ranging from 1.0 percent - 1.75 percent) of gross revenues (as defined in the agreement) through December 31, 2006. After December 31, 2006, and throughout the remainder of the lease term, annual rental payments shall be the greater of 0.5 percent of gross revenues or an aggregate of \$750,000. Total rental payments received in 2004 were approximately \$190,000.

### **13. DISPUTE SETTLEMENT AGREEMENT**

On April 27, 1999, the ASFDA and the City entered into a Dispute Settlement Agreement and Agreement Not To Pursue Claim (the "Dispute Settlement Agreement") with the Texas Rangers baseball club (the "Rangers"). The Dispute Settlement Agreement relates to the amount of costs of acquiring certain tracts of land for the Project, which the ASFDA and the City alleged should be paid by the Rangers (the "Claim"). The Dispute Settlement Agreement requires the Rangers to make annual installment payments, without interest, to the Authority on or before December 31 of each year as follows:

<u>Year</u>	<u>Amount</u>
2004	\$ 800,000
2005	800,000
2006	800,000
2007	800,000
2008	800,000
2009 to 2013	4,700,000
2014 to 2018	5,000,000
2019 to 2023	5,000,000
2024	<u>1,000,000</u>
	19,700,000
Less Discount	<u>8,048,000</u>
	<u>\$11,652,000</u>

The payment in 2024 is due on or before March 1. By entering into this agreement, the ASFDA and the City agreed to release and discharge the Rangers from the Claim.

### **14. CAPITAL LEASE**

A lease agreement was executed on June 23, 1992 between the Texas Rangers, Ltd. (the Rangers) and the ASFDA for the Ballpark Complex Development (the Facility). The lease is a triple net lease to the Rangers, with the Rangers retaining all concession and signage rights. The Rangers agreed to pay a base rent of \$2,000,000 per year for the 30-year term of the lease. Upon retirement or defeasance of the debt, the Rangers have the option to purchase the Facility, excluding the linear park, at a cost of \$60,000,000, with full credit given for all base and additional rents paid, as well as up to \$1,500,000 annual credit for maintenance costs paid on the Facility by the Rangers. If the purchase option is exercised, the Rangers are committed to play baseball in the City for ten additional years.

Pursuant to applicable accounting standards, the lease of the Facility to the Rangers has been accounted for as a capital lease in the component unit, ASFDA. Accordingly, a lease receivable has been established representing the future expected lease proceeds and the capital assets have been removed from the accounts of the ASFDA. As of September 30, 2004, the lease receivable balance was \$39,055,556, with a corresponding deferred revenue balance.



Minimum future rentals are as follows:

September 30

2005	\$ 2,000,000
2006	2,000,000
2007	2,000,000
2008	2,000,000
2009	2,000,000
2010-2014	10,000,000
2015-2019	10,000,000
2020-2023	<u>9,055,556</u>

Minimum future lease rentals \$39,055,556

**15. CONDENSED COMPONENT UNIT INFORMATION**

The City includes five component units in its reporting entity (see note I.B.). Condensed component unit information for the year ended September 30, 2004, for all discretely presented component units is as follows (amounts in thousands):

Condensed Statement of Net Assets

	Arlington Sports Facilities Development Authority, Inc. <u>2004</u>	Housing Authority <u>2004</u>	Nonmajor Discretely Presented Component Units <u>2004</u>	Total Discretely Presented Component Units <u>2004</u>
Current and other assets	\$58,530	\$4,996	\$447	\$63,973
Capital assets	<u>1,589</u>	<u>463</u>	<u>155</u>	<u>2,207</u>
Total assets	<u>60,119</u>	<u>5,459</u>	<u>602</u>	<u>66,180</u>
Long-term liabilities outstanding	17,714	-	-	17,714
Other liabilities	<u>39,150</u>	<u>2,467</u>	<u>139</u>	<u>41,756</u>
Total liabilities	<u>56,864</u>	<u>2,467</u>	<u>139</u>	<u>59,470</u>
Net assets:				
Invested in capital assets, net of related debt	-	463	-	463
Restricted	6,552	-	-	6,552
Unrestricted	<u>(3,297)</u>	<u>2,529</u>	<u>463</u>	<u>(305)</u>
Total net assets	<u>\$ 3,255</u>	<u>\$2,992</u>	<u>\$463</u>	<u>\$ 6,710</u>

# Condensed Statement of Activities

	Arlington Sports Facilities Development Authority, Inc. <u>2004</u>	Housing Authority <u>2004</u>	Nonmajor Discretely Presented Component Units <u>2004</u>	Total Discretely Presented Component Units <u>2004</u>
Expenses	<u>\$2,662</u>	<u>\$26,009</u>	<u>\$3,090</u>	<u>\$31,761</u>
Program Revenues:				
Charges for services	2,589	-	2,741	5,330
Operating grants and contributions	<u>-</u>	<u>26,315</u>	<u>426</u>	<u>26,741</u>
Net Program (Expense) Revenue	<u>(73)</u>	<u>306</u>	<u>77</u>	<u>310</u>
Interest Revenues	215	18	7	240
Other NonTax General Revenues	<u>(40)</u>	<u>195</u>	<u>(1)</u>	<u>154</u>
Change in Net Assets	102	519	83	704
Net Assets, October 1	<u>3,153</u>	<u>2,473</u>	<u>380</u>	<u>6,006</u>
Net Assets, September 30	<u>\$3,255</u>	<u>\$ 2,992</u>	<u>\$ 463</u>	<u>\$ 6,710</u>

## 16. SUSEQUENT EVENTS

On November 2, 2004, a majority of the voters of the City voted in favor of a proposition authorizing the City to provide for the planning, acquisition, establishment, development, construction and financing of the Dallas Cowboys Complex Development Project (the "Project") within the City and (i) to impose a sales and use tax within the City at a rate of one-half of one percent (0.5%), (ii) to impose a tax at a maximum rate of five percent (5%) on the gross rental receipts from the short-term rental in the City of a motor vehicle, (iii) to impose a tax on the occupancy of a room in a hotel located within the city, at a maximum rate of two percent (2%) of the price paid for such room, (iv) to impose an admissions tax on each ticket sold as admission to an event held at the Project at a maximum rate not to exceed ten percent (10%) of the price of the ticket, and (v) to impose a tax on each parked motor vehicle parking in a parking facility of the Project at a maximum rate not to exceed three dollars (\$3.00) per vehicle.

On February 8, 2005, the City Council approved the Cowboys Complex Funding and Closing Agreement (the "Agreement"). The Agreement anticipates the issuance of bonds, notes or other obligations by the City and the Cowboys by September 1, 2005, while reserving the right of either the City or the Cowboys to terminate the Agreement up to July 1, 2005. The City's contribution to the Project is the lesser of \$325 million or fifty percent (50%) of the Project's cost.